

STATE OF TENNESSEE

Office of the Attorney General



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Reply to:  
Consumer Advocate and Protection Division  
Post Office Box 20207  
Nashville, TN 37202

May 30, 2003

Honorable Sara Kyle  
Chairman  
Tennessee Regulatory Authority  
460 James Robertson Parkway  
Nashville, Tennessee 37243

**RE: In Re: Petition of Tennessee American Water Company to Change and Increase Certain Rates and Charges So As to Permit it to Earn a Fair and Adequate Rate of Return on Its Property Used and Useful in Furnishing Water Service to Its Customers**  
**Docket No. 03-00118**

Dear Chairman Kyle:

Enclosed is an original and thirteen copies of the Direct Testimony of Mark H. Crocker of the Consumer Advocate and Protection Division of the Office of the Attorney General. Kindly file same in this docket. Copies are being sent to all parties of record. If you have any questions, kindly contact me at (615) 532-3382. Thank you.

Sincerely,

Shilina B. Chatterjee  
Assistant Attorney General

Enclosures

cc: All Parties of Record

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Before the

**TENNESSEE REGULATORY AUTHORITY**

**IN RE: PETITION OF TENNESSEE-AMERICAN  
WATER COMPANY FOR APPROVAL OF CHANGE  
IN RATES AND CHARGES  
DOCKET NO. 03-00118**

\*\*\*\*\*

**DIRECT TESTIMONY  
OF  
MARK H. CROCKER**

\*\*\*\*\*

**May 30, 2003**

1     **Q-1   Please state your name for the record.**

2     A-1   My name is Mark H. Crocker ("Mark").

3     **Q-2   By whom are you employed and what is your position?**

4     A-2   I am employed by the Consumer Advocate and Protection Division ("CAPD") in the  
5     Office of the Attorney General of the State of Tennessee as a Regulatory Analyst.

6     **Q-3   What is your employment background?**

7     A-3   I have been employed in the CAPD since July of 2001. Prior to my employment with the  
8     Attorney General's Office, I was employed in private practice for approximately two and  
9     one-half years; as the Chief Financial Officer of a privately owned travel company for  
10    approximately one year; as the Vice-President of Finance and Chief Operating Officer of  
11    the Cumberland Science Museum for five years; as an Internal Revenue Agent with the  
12    Internal Revenue Service for five years; and as an auditor for the Division of Municipal  
13    Audit of the State Comptroller's Office for a little over one year. I have also served as an  
14    adjunct professor of accounting at Middle Tennessee State University for approximately  
15    ten years; at Tennessee State University for two semesters; and at Nashville State  
16    Technical Institute for one semester.

17    **Q-4   What is your educational background and what degrees do you hold?**

18    A-4   I have a Bachelor of Arts degree from Middle Tennessee State University with a major in  
19    American History with minors in French and Economics. I have a Master of Arts degree  
20    from Middle Tennessee State University in American History with an emphasis in  
21    Historic Preservation. I completed the requirements to add accounting as a second  
22    undergraduate major in August of 1986. I am a Certified Public Accountant in the State  
23    of Tennessee, a member of the American Institute of Certified Public Accountants

24 ("AICPA"), and a member of the Tennessee Society of Certified Public Accountants  
25 ("TSCPA").

26 **Q-5 What is the purpose of your testimony before the Tennessee Regulatory Authority**  
27 **("TRA")?**

28 A-5 The purpose of my testimony is to explain the Consumer Advocate's proposed  
29 adjustment to the Property Tax Expense line item in the Company's Income Statement for  
30 the Attrition Year, and to address the additional expense items included in the Company's  
31 Income Statement.

32 **Q-6 Would you please explain the adjustment?**

33 A-6 The Company is proposing an additional \$198,092 in Property Tax Expense in the  
34 Attrition Year. The Normalized Test Year Expense for Property Tax was \$2,462,565 per  
35 Ms. Valentine's Exhibit no. 2, Schedule 5, Page 1 of 1. The Company is basing it's  
36 estimated increase on a supposition that the assessed value of the property owned by the  
37 Company will increase in the amount of \$3,136,296.00, which is an increase of 8.17%.

38 The Consumer Advocate bases it's computation of Property Tax Expense on a ratio of the  
39 expense to the rate base, which is historical in perspective.

40 In 1996 (the time of the last rate case), the ratio of Property Tax Expense to the  
41 Rate Base was 2.6%. Using Ms. Valentine's numbers, the ratio of Property Tax  
42 Expense to Rate Base in the Normalized Test Year was 2.8%. The Company is  
43 proposing a ratio of 3.0%. CAPD proposes to use the same 2.8% as paid in the  
44 Test Year applied to the Rate Base as established by CAPD which computes a  
45 Property Tax Expense of \$2,443,576 as reflected in CAPD Exhibit, Schedule 6.

46 This appears to be a reasonable amount since the Company is not proposing any

47 major construction. Therefore, the assessed value should not increase  
48 dramatically. In fact, due to the property tax equalization process required in  
49 Tennessee, it is possible that the property tax expense ratio will decline.  
50 In reviewing the other expenses included in the Company's proposal, no material  
51 errors were discovered. The other adjustments and computations shown in  
52 CAPD Exhibit, Schedules 1, 3, 4, 5, 7 and 8 are the results of the flow-through of  
53 the property tax expense adjustment and Mr. Chrysler's testimony as reflected on  
54 Schedules 2 and 3.

55 **Q-7 Does this conclude your testimony?**

56 **A-7 Yes, it does.**

BEFORE THE TENNESSEE REGULATORY AUTHORITY  
AT NASHVILLE, TENNESSEE

IN RE: PETITION OF TENNESSEE-AMERICAN )  
WATER COMPANY FOR APPROVAL OF CHANGE ) DOCKET NO. 03-00118  
IN RATES AND CHARGES )  
)

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AFFIDAVIT

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STATE OF TENNESSEE )

COUNTY OF DAVIDSON )

Before me, the undersigned authority, duly commissioned and qualified in and for the State and County aforesaid, personally came and appeared, Mark H. Crocker, being by me first duly sworn deposed and said that:

He is appearing as a witness on behalf of the Consumer Advocate and Protection Division of the Tennessee Attorney General's Office and if present before the Authority and duly sworn, his testimony is set forth in the annexed transcript consisting of 4 pages.

  
\_\_\_\_\_  
MARK H. CROCKER

Sworn to and subscribed before me  
this 30<sup>th</sup> day of May, 2003.

  
\_\_\_\_\_  
NOTARY PUBLIC

My commission expires: Oct. 25, 2003

**CAPD EXHIBIT**  
**Schedules 1-8**

Tennessee-American Water  
Index to Schedules  
For the 12 Months Ending March 31, 2004

	<u>Schedule No.</u>
Results of Operations	1
Comparative Rate Base	2
Income Statement at Current Rates	3
Income Statement at Proposed Rates	4
Operation and Maintenance Expenses	5
Taxes Other Than Income Taxes	6
Excise and Income Taxes	7
Revenue Conversion Factor	8



Tennessee-American Water  
Results of Operations  
For the 12 Months Ending March 31, 2004

Line No.		CAPD		Company	F/	Difference
1	Rate Base	87,062,756	A/	87,270,579		(207,823)
2	Operating Income at Present Rates	5,098,465	B/	5,193,431		(94,966)
3	Earned Rate of Return (Line 2/Line 1)	5.86%		5.95%		-0.09%
4	Cost of Capital	7.46%	C/	8.559%		-1.10%
5	Required Operating Income (Line 1*Line 4)	6,494,882		7,469,489		(974,607)
6	Operating Income Deficiency (Line 5-Line 2)	1,396,417		2,276,058		(879,641)
7	Gross Revenue Conversion Factor	1.682767	D/	1.698908		(0.016141)
8	Revenue Deficiency (Line 6*Line 7)	2,349,844		3,866,812		(1,516,968)
9	Fire Protection Rate Discount	(1,127,964)	E/			
10	Rate Increase Needed (Line 8-Line 9)	1,221,880				

A/ Schedule 2

B/ Schedule 3

C/ Exhibit SB\_\_, Schedule 16

D/ Schedule 8

E/ TRA Order on 9/26/00 in Docket 99 - 00891

F/ Company SAV Exhibit 1, Sch. 1

Tennessee-American Water  
Comparative Rate Base  
For the 12 Months Ending March 31, 2004

Line No.		CAPD	A/	Company	B/	Difference
1	Utility Plant in Service	146,234,775		146,234,775		-
2	Construction Work in Progress	801,659		801,659		-
3	Utility Plant Capital Lease	1,590,500		1,590,500		-
4	Limited-Term Utility Plant - Net	(20,953)		(20,953)		-
5	Working Capital	1,403,079		1,567,918		(164,839)
6	RWIP / Def. Maint.	34,191		77,175		(42,984)
7	Total Additions	150,043,251		150,251,074		(207,823)
8	Accumulated Depreciation	44,221,915		44,221,915		-
9	Accumulated Amort. of Utility Capital Lease	565,511		565,511		-
10	Accumulated Deferred Income Taxes	11,070,493		11,070,493		-
11	Customer Advances for Construction	2,007,438		2,007,438		-
12	Contributions In Aid of Construction	5,064,245		5,064,245		-
13	Unamortized Investment Tax Credit	50,893		50,893		-
14	Plant Acquisition Adjustment	-		-		-
15	Total Deductions	62,980,495		62,980,495		-
16	Rate Base	87,062,756		87,270,579		(207,823)

A/ Modified From: Company SAV Exhibit 1, Sch. 2 (Chrysler Testimony)

B/ Company SAV Exhibit 1, Sch. 2

Tennessee-American Water  
Income Statement at Current Rates  
For the 12 Months Ending March 31, 2004

Line No.		CAPD		Company		Difference
1	Operating Revenues	30,040,618	A/	30,409,356	E/	(368,738)
2	Operations and Maintenance Expense	16,145,398	B/	16,164,046	B/	(18,648)
3	Depreciation and Amortization Expense	4,121,753	F/	4,121,753	F/	-
4	Taxes Other Than Income	3,430,304	C/	3,657,636	C/	(227,332)
5	State Excise Tax	126,131	D/	125,650	G/	481
6	Federal Income Tax	1,170,306	D/	1,198,579	G/	(28,273)
7	Total Operating Expense	24,993,892		25,267,664		(273,772)
8	AFUDC	51,739	H/	51,739	H/	-
9	Net Operating Income for Return	5,098,465		5,193,431		(94,966)

A/ \$30,409,356 per Co. less \$368,738 - eliminate bankrupt industrial customers from forecast.

B/ Schedule 5

C/ Schedule 6

D/ Schedule 7

E/ Company SAV Exhibit 2, Sch. 2

F/ Company SAV Exhibit 2, Sch. 1

G/ Company SAV Exhibit 2, Sch. 6

H/ Company SAV Exhibit 2, Sch. 3

Tennessee-American Water  
Income Statement at Proposed Rates  
For the 12 Months Ending March 31, 2004

Line No.		Current Rates	A/ B/	Adjustments	C/	Proposed Rates
1	Operating Revenues	29,758,457		2,349,844		32,108,301
2	Forfeited Discount Revenues	282,161		22,559		304,720
3	Total Revenues	<u>30,040,618</u>		<u>2,372,402</u>		<u>32,413,020</u>
4	Operations and Maintenance Expense	16,145,398		21,589		16,166,987
5	Depreciation and Amortization Expense	4,121,753				4,121,753
6	Taxes Other Than Income	3,430,304		65,353		3,495,657
7	State Excise Tax	126,131		137,128		263,259
8	Federal Income Tax	<u>1,170,306</u>		751,917		<u>1,922,222</u>
9	Total Operating Expense	<u>24,993,892</u>				<u>25,969,878</u>
10	AFUDC	<u>51,739</u>				<u>51,739</u>
11	Net Operating Income for Return	<u>5,098,465</u>				<u>6,494,882</u>

A/ Schedule 3

B/ Company SAV Exhibit 2, Sch. 2 (less \$368,738 industrial operating revenues)

C/ Schedule 1, Line 8 x appropriate factor from Schedule 8

Tennessee-American Water  
Operation and Maintenance Expenses  
For the 12 Months Ending March 31, 2004

Line No.		CAPD	Company	A/	Difference
1	Salaries and Wages	5,066,666	5,066,666		-
2	Purchased Water	17,561	17,561		-
3	Fuel and Power	1,551,622	1,551,622		-
4	Chemicals	740,531	740,531		-
5	Waste Disposal	130,151	130,151		-
6	Service Company Charges	2,507,276	2,507,276		-
7	Group Insurance	1,463,924	1,463,924		-
8	Pensions	387,895	387,895		-
9	Regulatory Expense	83,000	83,000		-
10	Insurance Other Than Group	709,686	709,686		-
11	Customer Accounting	435,427	435,427		-
12	Uncollectible Expense	245,456	245,456		-
13	Rents	42,729	42,729		-
14	General Office Expense	260,878	260,878		-
15	Miscellaneous Expense	1,802,276	B/ 1,820,924		(18,648)
16	Other Maintenance Expense	<u>700,320</u>	<u>700,320</u>		<u>-</u>
17	Total O&M Expense	<u>16,145,398</u>	<u>16,164,046</u>		<u>(18,648)</u>

A/ Company SAV Exhibit 2, Sch. 3

B/ Inflation factor adjusted from 3.275% to 2.5% reduces miscellaneous expenses by \$18,648

Tennessee-American Water  
Taxes Other Than Income Taxes  
For the 12 Months Ending March 31, 2004

Line No.		CAPD	Company	B/	Difference
1	Other General Taxes	150	150		-
2	Gross Receipts Tax	297,288	307,539		(10,251) C/
3	TRA Inspection Fee	56,538	56,538		-
4	Property Taxes	2,443,576 A/	2,660,657		(217,081)
5	Franchise Tax	251,317	251,317		-
6	FICA Taxes	375,600	375,600		-
7	Unemployment Taxes	5,835	5,835		-
8	Total Taxes Other Than Income Taxes	<u>3,430,304</u>	<u>3,657,636</u>		<u>(227,332)</u>

A/ Test year normalized expense \$2,462,565 / Test year normalized rate base \$88,207,027= 2.8%.

Property tax ratio was 2.6% in 1996. TAWC calculated 3.0% effective rate.

B/ Company SAV Exhibit 2, Sch. 5 and Working Papers Book 2, General Taxes

C/ Revenue adjustment (\$368,738 Schedule 3) times gross receipts tax rate (2.78% Schedule 8).

Tennessee-American Water  
Excise and Income Taxes  
For the 12 Months Ending March 31, 2004

Line No.		Attrition Amount A/ B/
1	Operating Revenues	30,040,618 B/
2	Salaries and Wages	5,066,666
3	Purchased Water	17,561
4	Fuel and Power	1,551,622
5	Chemicals	740,531
6	Waste Disposal	130,151
7	Service Company Charges	2,507,276
8	Group Insurance	1,463,924
9	Pensions	387,895
10	Regulatory Expense	83,000
11	Insurance Other Than Group	709,686
12	Customer Accounting	435,427
13	Uncollectible Expense	245,456
14	Rents	42,729
15	General Office Expense	260,878
16	Miscellaneous Expense	1,802,276
17	Other Maintenance Expense	700,320
18	Depreciation and Amortization Expense	4,121,753
19	Taxes Other Than Income	3,430,304
20	NOI Before Excise and Income Taxes	6,343,163
21	AFUDC	51,739
22	Interest Expense	(3,216,934) C/
23	Pre-tax Book Income	3,177,968
24	Schedule M Adjustments	(2,547,602) D/
25	Excise Taxable Income	630,366
26	Excise Tax Rate	6.00%
27	Excise Tax Payable	37,822
28	Excise Tax Deferred	88,309
29	Excise Tax Expense	126,131
30	Pre-tax Book Income	3,177,968
31	Preferred Dividend Credit	(28,824)
32	Excise Tax	(126,131)
33	Schedule M Adjustments	(2,547,602) D/
34	FIT Taxable Income	475,411
35	FIT Rate	35.00%
36	Federal Income Tax Payable	166,394
37	ITC Amortization	(79,314)
38	Federal Income Tax Deferred	1,083,226
39	Federal Income Tax Expense	1,170,306

A/ Schedule 5.

B/ Schedule 4

C/ Schedule 1, line 1 \* Weighted Cost of Debt per Exhibit SB\_\_, Schedule 16

D/ This is the net difference of the Permanent Differences of \$14,123 and the Temporary Differences of \$2,561,725 shown on Ms. Valentine's Exhibit No. 2, Schedule 6, Page 2 of 2.

Tennessee-American Water  
Revenue Conversion Factor  
For the 12 Months Ending March 31, 2004

Line No.		Amount	Balance
1	Operating Revenues		<u>1.000000</u>
2	Add: Forfeited Discounts	0.0096 A/	<u>0.009600</u>
3	Balance		1.009600
4	Uncollectible Ratio	0.0091 B/	<u>0.009187</u>
5	Balance		1.000413
6	Gross Receipts Taxes	0.0278 C/	<u>0.027811</u>
7	Balance		0.972601
8	State Excise Tax	0.0600 D/	<u>0.058356</u>
9	Balance		0.914245
10	Federal Income Tax	0.3500 D/	<u>0.319986</u>
11	Balance		<u>0.594259</u>
12	Revenue Conversion Factor (Line 1 / Line 11)		<u><u>1.682767</u></u>

A/ Company SAV Exhibit 2, Sch. 2

B/ Company Working Papers, Book 2, Uncollectible tab, P. 1

C/ Company Working Papers, Book 2, General Taxes tab, P. 6

D/ Statutory Rate